

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-----------------------------|--|---------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Township of Pavilion | County Kalamazoo |
| Fiscal Year End 3/31/07 | Opinion Date May 2, 2007 | Date Audit Report Submitted to State June 6, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

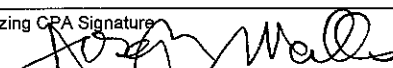
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | No further communication required | |
| Certified Public Accountant (Firm Name) Siegfried Crandall P.C. | | Telephone Number 269-381-4970 | |
| Street Address 246 East Kilgore Road | | City Kalamazoo | State MI |
| Zip 49002 | | | |
| Authorizing CPA Signature  | | Printed Name Joseph M Walls, CPA | License Number 1101013696 |

Township of Pavilion
Kalamazoo County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended March 31, 2007

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INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Pavilion, Michigan**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Pavilion, Michigan, as of March 31, 2007, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of Township of Pavilion, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Pavilion, Michigan, as of March 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information on pages 18 through 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Township of Pavilion, Michigan, has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Board of Trustees
Township of Pavilion, Michigan
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Pavilion, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

May 2, 2007

BASIC FINANCIAL STATEMENTS

Township of Pavilion
STATEMENT OF NET ASSETS
March 31, 2007

| | <u>Governmental activities</u> |
|---|---|
| ASSETS | |
| Current assets: | |
| Cash | \$ 787,675 |
| Receivables, net | 426,262 |
| Prepaid expenses | <u>3,257</u> |
| Total current assets | <u>1,217,194</u> |
| Noncurrent assets: | |
| Receivables, net | 967,928 |
| Capital assets, not being depreciated | 68,509 |
| Capital assets, net of accumulated depreciation | <u>1,461,261</u> |
| Total noncurrent assets | <u>2,497,698</u> |
| Total assets | <u>3,714,892</u> |
| LIABILITIES | |
| Current liabilities: | |
| Payables | 102,750 |
| Current portion of long-term obligations | <u>80,555</u> |
| Total current liabilities | 183,305 |
| Noncurrent liabilities - long-term obligations | <u>854,791</u> |
| Total liabilities | <u>1,038,096</u> |
| NET ASSETS | |
| Invested in capital assets | 1,304,770 |
| Restricted for: | |
| Public works | 664,203 |
| Debt service | 240,466 |
| Unrestricted | <u>467,357</u> |
| Total net assets | <u>\$ 2,676,796</u> |

See notes to financial statements

Township of Pavilion
STATEMENT OF ACTIVITIES
Year ended March 31, 2007

| | <u>Program revenues</u> | | | | <u>Net (expenses) revenues and changes in net assets</u> |
|------------------------------------|-------------------------|-----------------------------|---|---|--|
| | <u>Expenses</u> | <u>Charges for services</u> | <u>Operating grants and contributions</u> | <u>Capital grants and contributions</u> | <u>Governmental activities</u> |
| Functions/Programs | | | | | |
| Governmental activities: | | | | | |
| Legislative | \$ 6,173 | \$ - | \$ - | \$ - | \$ (6,173) |
| General government | 396,934 | 79,084 | - | 19,200 | (298,650) |
| Public safety | 176,440 | 29,786 | - | 77,904 | (68,750) |
| Public works | 77,227 | 47,579 | 8,609 | 41,447 | 20,408 |
| Community and economic development | 8,422 | 5,595 | - | - | (2,827) |
| Interest on long-term obligations | <u>49,798</u> | <u>55,446</u> | <u>-</u> | <u>-</u> | <u>5,648</u> |
| Total governmental activities | <u>\$ 714,994</u> | <u>\$ 217,490</u> | <u>\$ 8,609</u> | <u>\$ 138,551</u> | <u>(350,344)</u> |
| General revenues: | | | | | |
| Taxes | | | | | 158,028 |
| State grants | | | | | 399,552 |
| Investment income | | | | | 22,021 |
| Other | | | | | <u>4,001</u> |
| Total general revenues | | | | | <u>583,602</u> |
| Change in net assets | | | | | 233,258 |
| Net assets - beginning | | | | | <u>2,443,538</u> |
| Net assets - ending | | | | | <u>\$ 2,676,796</u> |

See notes to financial statements

Township of Pavilion
BALANCE SHEET - governmental funds
 March 31, 2007

| | <u>General</u> | <u>Sewer</u> | <u>Indian/ Pickeral Debt</u> |
|--|-------------------|-------------------|--------------------------------------|
| ASSETS | | | |
| Cash | \$ 313,955 | \$ 194,548 | \$ 2,766 |
| Receivables | <u>79,166</u> | <u>432,692</u> | <u>299,686</u> |
| Total assets | <u>\$ 393,121</u> | <u>\$ 627,240</u> | <u>\$ 302,452</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Payables | \$ 88,431 | \$ - | \$ 6,906 |
| Deferred revenue | <u>-</u> | <u>202,059</u> | <u>295,546</u> |
| Total liabilities | 88,431 | 202,059 | 302,452 |
| Fund balances: | | | |
| Unreserved | 304,690 | 425,181 | - |
| Unreserved, reported in nonmajor special revenue funds | <u>-</u> | <u>-</u> | <u>-</u> |
| Total fund balances | <u>304,690</u> | <u>425,181</u> | <u>-</u> |
| Total liabilities and fund balances | <u>\$ 393,121</u> | <u>\$ 627,240</u> | <u>\$ 302,452</u> |

Total fund balances - total governmental funds

Amounts reported for *governmental activities* in the statement of net assets (page 4) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

Accrued interest and prepaid expenses are not current financial resources and, therefore, are not reported in the funds.

Special assessments receivable are not available to pay for the current period's expenditures and, therefore, are deferred in the funds.

Long-term liabilities, including contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Interest related to long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds.

Net assets of *governmental activities*

| <u>Northwest Water Debt</u> | <u>Sewer Debt</u> | <u>Other nonmajor governmental funds</u> | <u>Total governmental funds</u> |
|---------------------------------|-----------------------|--|---|
| \$ 94,090 | \$ 2,941 | \$ 179,375 | \$ 787,675 |
| <u>326,151</u> | <u>227,737</u> | <u>1,412</u> | <u>1,366,844</u> |
| <u>\$ 420,241</u> | <u>\$ 230,678</u> | <u>\$ 180,787</u> | <u>\$ 2,154,519</u> |
| \$ - | \$ - | \$ - | \$ 95,337 |
| <u>320,050</u> | <u>227,737</u> | <u>-</u> | <u>1,045,392</u> |
| 320,050 | 227,737 | - | 1,140,729 |
| 100,191 | 2,941 | - | 833,003 |
| <u>-</u> | <u>-</u> | <u>180,787</u> | <u>180,787</u> |
| <u>100,191</u> | <u>2,941</u> | <u>180,787</u> | <u>1,013,790</u> |
| <u>\$ 420,241</u> | <u>\$ 230,678</u> | <u>\$ 180,787</u> | <u>\$ 2,154,519</u> |
| | | | \$ 1,013,790 |
| | | | 1,529,770 |
| | | | 30,603 |
| | | | 1,045,392 |
| | | | (935,346) |
| | | | <u>(7,413)</u> |
| | | | <u>\$ 2,676,796</u> |

See notes to financial statements

Township of Pavilion**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds**

Year ended March 31, 2007

| | <u>General</u> | <u>Sewer</u> | <u>Indian/ Pickeral Debt</u> |
|--|-------------------|-------------------|--------------------------------------|
| REVENUES | | | |
| Taxes | \$ 208,441 | \$ - | \$ - |
| Licenses and permits | 29,786 | - | - |
| Federal grants | 77,904 | - | - |
| State grants | 408,161 | - | - |
| Charges for services | 46,052 | - | - |
| Interest and rentals | 9,443 | 11,937 | 18,617 |
| Other | 4,002 | 40,436 | 52,942 |
| | <u>783,789</u> | <u>52,373</u> | <u>71,559</u> |
| Total revenues | | | |
| | <u>783,789</u> | <u>52,373</u> | <u>71,559</u> |
| EXPENDITURES | | | |
| Legislative | 6,173 | - | - |
| General government | 373,203 | - | - |
| Public safety | 108,934 | - | - |
| Public works | 150,595 | 9,729 | - |
| Community and economic development | 8,422 | - | - |
| Capital outlay | 384,143 | - | - |
| Debt service: | | | |
| Principal | 25,000 | - | 52,942 |
| Interest | 6,000 | - | 18,617 |
| | <u>1,062,470</u> | <u>9,729</u> | <u>71,559</u> |
| Total expenditures | | | |
| | <u>1,062,470</u> | <u>9,729</u> | <u>71,559</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (278,681) | 42,644 | - |
| OTHER FINANCING SOURCES | | | |
| Debt proceeds | 250,000 | - | - |
| Transfers in | - | - | - |
| Transfers out | - | - | - |
| | <u>250,000</u> | <u>-</u> | <u>-</u> |
| Total other financing sources (uses) | | | |
| | <u>250,000</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | (28,681) | 42,644 | - |
| FUND BALANCES - BEGINNING | <u>333,371</u> | <u>382,537</u> | <u>-</u> |
| FUND BALANCES - ENDING | <u>\$ 304,690</u> | <u>\$ 425,181</u> | <u>\$ -</u> |

| <u>Northwest Water Debt</u> | <u>Sewer Debt</u> | <u>Total nonmajor governmental funds</u> | <u>Total governmental funds</u> |
|--|------------------------------|---|--|
| \$ - | \$ - | \$ - | \$ 208,441 |
| - | - | - | 29,786 |
| - | - | - | 77,904 |
| - | - | - | 408,161 |
| - | - | - | 46,052 |
| 23,416 | 5,469 | 5,336 | 74,218 |
| <u>53,835</u> | <u>6,720</u> | <u>20,863</u> | <u>178,798</u> |
| <u>77,251</u> | <u>12,189</u> | <u>26,199</u> | <u>1,023,360</u> |
| - | - | - | 6,173 |
| - | - | - | 373,203 |
| - | - | - | 108,934 |
| 876 | - | 13,784 | 174,984 |
| - | - | - | 8,422 |
| - | - | - | 384,143 |
| 80,000 | 1,000 | - | 158,942 |
| <u>12,010</u> | <u>10,358</u> | <u>-</u> | <u>46,985</u> |
| <u>92,886</u> | <u>11,358</u> | <u>13,784</u> | <u>1,261,786</u> |
| (15,635) | 831 | 12,415 | (238,426) |
| - | - | - | 250,000 |
| - | - | 12,252 | 12,252 |
| <u>-</u> | <u>-</u> | <u>(12,252)</u> | <u>(12,252)</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>250,000</u> |
| (15,635) | 831 | 12,415 | 11,574 |
| <u>115,826</u> | <u>2,110</u> | <u>168,372</u> | <u>1,002,216</u> |
| <u>\$ 100,191</u> | <u>\$ 2,941</u> | <u>\$ 180,787</u> | <u>\$ 1,013,790</u> |

See notes to financial statements

Township of Pavilion

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - *governmental funds* (Continued)**

Year ended March 31, 2007

| | <i>Total governmental funds</i> |
|--|--|
| | <hr/> |
| Net change in fund balances - total governmental funds | \$ 11,574 |
| Amounts reported for <i>governmental activities</i> in the statement of activities (page 5) are different because: | |
| Capital assets: | |
| Additions | 493,502 |
| Depreciation | (81,304) |
| Deferred revenue: | |
| Special assessment additions | 39,150 |
| Special assessment collections | (155,649) |
| Long-term debt: | |
| Issued | (250,000) |
| Retirements | 158,942 |
| Changes in other current assets/liabilities: | |
| Net increase in accrued interest revenue | 22,191 |
| Net decrease in prepaid expenses | (2,335) |
| Net decrease in accrued interest expense | <u>(2,813)</u> |
| Change in net assets of <i>governmental activities</i> | <u>\$ 233,258</u> |

See notes to financial statements

Township of Pavilion
STATEMENT OF FIDUCIARY NET ASSETS - Agency Fund
March 31, 2007

ASSETS

| | |
|------|---------------|
| Cash | \$ <u>576</u> |
|------|---------------|

LIABILITIES

| | |
|---------------------------------|---------------|
| Due to other governmental units | \$ <u>576</u> |
|---------------------------------|---------------|

See notes to financial statements

Township of Pavilion
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Pavilion, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Township of Pavilion
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation:

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Sewer Fund accounts for the financial resources used for the expansion and maintenance of sewer lines within the Township. Revenues are primarily derived from connection fees and special assessments.

The Indian/Pickeral Debt Fund accounts for the financial resources used for payments of long-term contractual obligations to the South County Sewer and Water Authority. Revenues are primarily derived from special assessments.

The Northwest Water Debt Fund accounts for the financial resources used for payments of long-term bond obligations. Revenues are primarily derived from special assessments.

The Sewer Debt Fund accounts for the financial resources used for payments of long-term bond obligations. Revenues are primarily derived from special assessments.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). The Township has elected not to follow subsequent private-sector standards.

The Township reports a single fiduciary fund, Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

d) Assets, liabilities, and net assets or equity:

- i) *Bank deposits* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is proportionately allocated to all funds.

Township of Pavilion
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

ii) *Receivables* - In general, outstanding balances between funds are reported as "due to/from other funds." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) *Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) *Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

| | |
|----------------------------|---------------|
| Buildings and improvements | 15 - 40 years |
| Equipment | 3 - 5 years |
| Vehicles | 3 - 20 years |
| Infrastructure | 40 years |

v) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

Township of Pavilion
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

The Township's significant budget variations are as follows:

| <u>Fund</u> | <u>Function</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------|----------------------|---------------|---------------|-----------------|
| General | Public works | \$ 122,165 | \$ 150,595 | \$ (28,430) |
| Water | Other financing uses | 2,000 | 5,000 | (3,000) |

NOTE 3 - CASH:

The Township's cash is as follows:

| | <u>Governmental activities</u> | <u>Fiduciary</u> | <u>Totals</u> |
|------|------------------------------------|------------------|---------------|
| Cash | \$ 787,675 | \$ 576 | \$ 788,251 |

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At March 31, 2007, \$513,714 of the Township's bank balances of \$789,653 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Township of Pavilion
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and nonmajor funds, in the aggregate, are as follows:

| <i>Fund</i> | <i>Accounts</i> | <i>Property taxes</i> | <i>Special assessments</i> | <i>Inter- governmental</i> | <i>Totals</i> |
|----------------------|-----------------|---------------------------|--------------------------------|--------------------------------|---------------------|
| General | \$ 1,795 | \$ 9,116 | \$ - | \$ 68,255 | \$ 79,166 |
| Sewer | 1,719 | - | 430,973 | - | 432,692 |
| Indian/Pickeral Debt | - | - | 299,686 | - | 299,686 |
| Northwest Water Debt | - | - | 326,151 | - | 326,151 |
| Sewer Debt | - | - | 227,737 | - | 227,737 |
| Other governmental | - | - | 1,412 | - | 1,412 |
| Totals | \$ 3,514 | \$ 9,116 | \$ 1,285,959 | \$ 68,255 | \$ 1,366,844 |
| Noncurrent portion | \$ - | \$ - | \$ 953,422 | \$ - | \$ 953,422 |

All receivables are considered fully collectible.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended March 31, 2007, was as follows:

| | <i>Beginning balance</i> | <i>Increases</i> | <i>Decreases</i> | <i>Ending balance</i> |
|---|------------------------------|------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated - land | \$ 68,509 | \$ - | \$ - | \$ 68,509 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 482,331 | - | - | 482,331 |
| Equipment | 230,576 | 114,993 | - | 345,569 |
| Vehicles | 434,815 | 267,404 | - | 702,219 |
| Infrastructure | 452,448 | 111,105 | - | 563,553 |
| Subtotal | 1,600,170 | 493,502 | - | 2,093,672 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (179,294) | (12,721) | - | (192,015) |
| Equipment | (142,183) | (22,661) | - | (164,844) |
| Vehicles | (207,334) | (32,574) | - | (239,908) |
| Infrastructure | (22,296) | (13,348) | - | (35,644) |
| Subtotal | (551,107) | (81,304) | - | (632,411) |
| Total capital assets being depreciated, net | 1,049,063 | 412,198 | - | 1,461,261 |
| Governmental activities capital assets, net | \$ 1,117,572 | \$ 412,198 | \$ - | \$ 1,529,770 |

Township of Pavilion
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to functions of the Township as follows:

| | |
|--------------------------|------------------|
| Governmental activities: | |
| General government | \$ 21,396 |
| Public safety | 46,560 |
| Public works | <u>13,348</u> |
| | <u>\$ 81,304</u> |

NOTE 6 - NONCURRENT LIABILITIES:

Long-term debt at March 31, 2007, is comprised of the following individual issues:

Governmental activities

Contract Payable:

The Township has agreed to remit to the South County Sewer and Water Authority all principal and interest collections arising from special assessments levied on Township properties served by the Authority. In the event that the Authority is unable to meet its debt service requirements, an assessment may be made against the Township of Pavilion and a neighboring township. The Township has pledged its full faith and credit for the payment of its share (26.56%) of any such deficiency. \$ 295,546

Purchase agreements:

\$215,800 2005 installment purchase agreement due in annual installments of \$1,000 to \$37,000, plus interest at 4.8%. Final payment is due April 2020. 214,800

\$250,000 2006 installment purchase agreement due in annual installments of \$25,000, plus interest at 4.8%. Final payment is due June 2011. 225,000

Bonds payable:

\$555,000 2002 special assessment bonds due in annual installments of \$5,000 to \$40,000 starting June 2003, through June 2017, plus interest at 4.9%. The Township has pledged its full faith and credit for the payment of the bonds. 200,000

Total governmental activities \$ 935,346

Long-term debt activity for the year ended March 31, 2007, was as follows:

| | <i>Beginning balance</i> | <i>Additions</i> | <i>Reductions</i> | <i>Ending balance</i> | <i>Amounts due within one year</i> |
|--------------------------|------------------------------|-------------------|---------------------|---------------------------|--|
| Governmental activities: | | | | | |
| Contract payable | \$ 348,488 | \$ - | \$ (52,942) | \$ 295,546 | \$ 29,555 |
| Purchase agreement | 215,800 | 250,000 | (26,000) | 439,800 | 51,000 |
| Bonds payable | <u>280,000</u> | <u>-</u> | <u>(80,000)</u> | <u>200,000</u> | <u>-</u> |
| Total | <u>\$ 844,288</u> | <u>\$ 250,000</u> | <u>\$ (158,942)</u> | <u>\$ 935,346</u> | <u>\$ 80,555</u> |

Township of Pavilion
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NONCURRENT LIABILITIES (Continued):

At March 31, 2007, debt service requirements on long-term debt are follows:

| <u>Year ended</u> <u>March 31,</u> | <u>Governmental activities</u> | |
|---------------------------------------|--------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2008 | \$ 80,555 | \$ 45,087 |
| 2009 | 80,555 | 41,162 |
| 2010 | 80,555 | 37,236 |
| 2011 | 116,355 | 33,310 |
| 2012 | 90,555 | 27,666 |
| 2013 - 2017 | 431,771 | 72,718 |
| 2018 - 2020 | <u>55,000</u> | <u>2,180</u> |
| Totals | <u>\$ 935,346</u> | <u>\$ 259,359</u> |

NOTE 7 - PAYABLES:

| <u>Fund</u> | <u>Accounts</u> | <u>Inter- governmental</u> | <u>Payroll</u> | <u>Totals</u> |
|----------------------|------------------|--------------------------------|------------------|------------------|
| General | \$ 72,005 | \$ - | \$ 16,426 | \$ 88,431 |
| Indian/Pickeral Debt | <u>-</u> | <u>6,906</u> | <u>-</u> | <u>6,906</u> |
| Totals | <u>\$ 72,005</u> | <u>\$ 6,906</u> | <u>\$ 16,426</u> | <u>\$ 95,337</u> |

NOTE 8 - DEFERRED REVENUE:

Governmental funds report deferred revenues in connection with revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenues are as follows:

| <u>Fund</u> | <u>Special Assessments Unavailable</u> |
|----------------------|--|
| Sewer | \$ 202,059 |
| Indian/Pickeral Debt | 295,546 |
| Northwest Water Debt | 320,050 |
| Sewer Debt | <u>227,737</u> |
| Totals | <u>\$ 1,045,392</u> |

Township of Pavilion
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - INTERFUND TRANSFERS:

A summary of interfund transfers for the year ended March 31, 2007, is as follows:

| <u>Fund</u> | <u>Transfer in</u> | <u>Fund</u> | <u>Transfer out</u> |
|-----------------------|--------------------|-------------|---------------------|
| Revolving Improvement | \$ 12,252 | Water | \$ 5,000 |
| | | Tobey Road | 7,252 |
| | | | <u>\$ 12,252</u> |

The transfer to the Revolving Improvement Fund from the Water Fund represents a reimbursement for operating costs previously paid for by the Revolving Improvement Fund.

The transfer to the Revolving Improvement Fund from the Tobey Road Fund represents the closing of the operating activities of the fund into the Revolving Improvement Fund.

NOTE 10 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended March 31, 2007, is as follows:

| | |
|----------------------------------|-----------------|
| Permit revenue | \$ 29,786 |
| Inspections | <u>(29,786)</u> |
| Excess of revenues over expenses | <u>\$ -</u> |

NOTE 11 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 12- DEFINED CONTRIBUTION PENSION PLAN:

The Township provides pension benefits for all its elected officials through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan State Statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. Officials are eligible to participate from the date they are elected to office. The Township annually contributes 10% of the participant's base salary or \$200, whichever is more, and participants are immediately 100% vested. The Township made the required contributions of \$14,337. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Pavilion
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended March 31, 2007

| | <u>Original budget</u> | <u>Amended budget</u> | <u>Actual</u> | <u>Variance favorable (unfavorable)</u> |
|--------------------------|----------------------------|---------------------------|----------------|---|
| REVENUES | | | | |
| Taxes | \$ 201,374 | \$ 190,768 | \$ 208,441 | \$ 17,673 |
| Licenses and permits | 45,000 | 60,000 | 29,786 | (30,214) |
| Federal grants | 95,000 | 77,904 | 77,904 | - |
| State grants | 419,803 | 430,000 | 408,161 | (21,839) |
| Charges for services | 45,500 | 50,500 | 46,052 | (4,448) |
| Interest and rentals | 8,400 | 8,400 | 9,443 | 1,043 |
| Other | <u>3,000</u> | <u>16,500</u> | <u>4,002</u> | <u>(12,498)</u> |
| Total revenues | <u>818,077</u> | <u>834,072</u> | <u>783,789</u> | <u>(50,283)</u> |
| EXPENDITURES | | | | |
| Legislative | <u>13,000</u> | <u>13,150</u> | <u>6,173</u> | <u>6,977</u> |
| General government: | | | | |
| Supervisor | 47,690 | 46,382 | 44,361 | 2,021 |
| Election | 4,600 | 11,900 | 11,076 | 824 |
| Assessor | 44,821 | 46,496 | 42,958 | 3,538 |
| Clerk | 49,758 | 44,082 | 43,698 | 384 |
| Board of review | 3,160 | 3,160 | 1,596 | 1,564 |
| Treasurer | 60,628 | 59,025 | 56,564 | 2,461 |
| Hall and grounds | 72,800 | 76,800 | 74,716 | 2,084 |
| Cemetery | 19,000 | 19,000 | 16,550 | 2,450 |
| Other | <u>111,000</u> | <u>100,015</u> | <u>81,684</u> | <u>18,331</u> |
| Total general government | <u>413,457</u> | <u>406,860</u> | <u>373,203</u> | <u>33,657</u> |
| Public safety: | | | | |
| Fire protection | 88,100 | 95,600 | 79,148 | 16,452 |
| Building inspections | <u>45,300</u> | <u>60,300</u> | <u>29,786</u> | <u>30,514</u> |
| Total public safety | <u>133,400</u> | <u>155,900</u> | <u>108,934</u> | <u>46,966</u> |
| Public works: | | | | |
| Highways and streets | 85,000 | 94,500 | 130,952 | (36,452) |
| Street lights | 1,400 | 1,400 | 1,236 | 164 |
| Collection station | 23,765 | 25,765 | 18,407 | 7,358 |
| Drains | <u>17,000</u> | <u>500</u> | <u>-</u> | <u>500</u> |
| Total public works | <u>127,165</u> | <u>122,165</u> | <u>150,595</u> | <u>(28,430)</u> |

Township of Pavilion

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended March 31, 2007

| | <u>Original budget</u> | <u>Amended budget</u> | <u>Actual</u> | <u>Variance favorable (unfavorable)</u> |
|---|----------------------------|---------------------------|---------------|---|
| EXPENDITURES (Continued) | | | | |
| Community and economic development - planning and zoning | \$ 16,100 | \$ 19,100 | \$ 8,422 | \$ 10,678 |
| Capital outlay | 163,000 | 432,939 | 384,143 | 48,796 |
| Debt service - principal | 50,000 | 25,000 | 25,000 | - |
| Debt service - interest | 12,000 | 6,000 | 6,000 | - |
| Total expenditures | 928,122 | 1,181,114 | 1,062,470 | 118,644 |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | (110,045) | (347,042) | (278,681) | 68,361 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Debt proceeds | - | 250,000 | 250,000 | - |
| Transfer to Water Fund | (2,000) | (2,000) | - | 2,000 |
| Total other financing sources (uses) | (2,000) | 248,000 | 250,000 | 2,000 |
| NET CHANGE IN FUND BALANCES | (112,045) | (99,042) | (28,681) | 70,361 |
| FUND BALANCES - BEGINNING | 333,371 | 333,371 | 333,371 | - |
| FUND BALANCES - ENDING | \$ 221,326 | \$ 234,329 | \$ 304,690 | \$ 70,361 |

Township of Pavilion
BUDGETARY COMPARISON SCHEDULE - Sewer Fund
Year ended March 31, 2007

| | <u>Original budget</u> | <u>Amended budget</u> | <u>Actual</u> | <u>Variance favorable (unfavorable)</u> |
|------------------------------------|----------------------------|---------------------------|-------------------|---|
| REVENUES | | | | |
| Interest | \$ 9,200 | \$ 9,200 | \$ 11,937 | \$ 2,737 |
| Other | <u>46,000</u> | <u>46,000</u> | <u>40,436</u> | <u>(5,564)</u> |
| Total revenues | 55,200 | 55,200 | 52,373 | (2,827) |
| EXPENDITURES | | | | |
| Public works | <u>55,200</u> | <u>55,200</u> | <u>9,729</u> | <u>45,471</u> |
| NET CHANGE IN FUND BALANCES | - | - | 42,644 | 42,644 |
| FUND BALANCES - BEGINNING | <u>382,537</u> | <u>382,537</u> | <u>382,537</u> | <u>-</u> |
| FUND BALANCES - ENDING | <u>\$ 382,537</u> | <u>\$ 382,537</u> | <u>\$ 425,181</u> | <u>\$ 42,644</u> |

SUPPLEMENTARY INFORMATION

Township of Pavilion
COMBINING BALANCE SHEET - nonmajor governmental funds
 March 31, 2007

| | <u>Special revenue funds</u> | | | |
|--------------------------|----------------------------------|---|-------------------------------|-------------------------------|
| | <u>Revolving Improvement</u> | <u>Lakeview/ Coles Landing Road</u> | <u>Street Lighting #1</u> | <u>Street Lighting #2</u> |
| ASSETS | | | | |
| Cash | \$ 161,210 | \$ 4,521 | \$ 2,737 | \$ 1,275 |
| Receivables | <u>-</u> | <u>325</u> | <u>174</u> | <u>21</u> |
| Total assets | <u>\$ 161,210</u> | <u>\$ 4,846</u> | <u>\$ 2,911</u> | <u>\$ 1,296</u> |
| FUND BALANCES | | | | |
| Unreserved, undesignated | <u>\$ 161,210</u> | <u>\$ 4,846</u> | <u>\$ 2,911</u> | <u>\$ 1,296</u> |

Special revenue funds

| <i>Street Lighting #3</i> | <i>Weed Control</i> | <i>Water</i> | <i>Tobey Road</i> | <i>Totals</i> |
|--------------------------------------|--------------------------------|---------------------|------------------------------|----------------------|
| \$ 52 | \$ 6,640 | \$ 2,940 | \$ - | \$ 179,375 |
| <u>392</u> | <u>500</u> | <u>-</u> | <u>-</u> | <u>1,412</u> |
| <u>\$ 444</u> | <u>\$ 7,140</u> | <u>\$ 2,940</u> | <u>\$ -</u> | <u>\$ 180,787</u> |
| | | | | |
| <u>\$ 444</u> | <u>\$ 7,140</u> | <u>\$ 2,940</u> | <u>\$ -</u> | <u>\$ 180,787</u> |

Township of Pavilion**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - nonmajor governmental funds**

Year ended March 31, 2007

| | Special revenue funds | | | |
|---|---|--|--------------------------------------|--------------------------------------|
| | <u>Revolving Improvement</u> | <u>Lakeview/ Coles Landing Road</u> | <u>Street Lighting #1</u> | <u>Street Lighting #2</u> |
| REVENUES | | | | |
| Interest | \$ 5,336 | \$ - | \$ - | \$ - |
| Other | <u>-</u> | <u>3,575</u> | <u>4,264</u> | <u>1,899</u> |
| Total revenues | 5,336 | 3,575 | 4,264 | 1,899 |
| EXPENDITURES | | | | |
| Public works | <u>-</u> | <u>1,950</u> | <u>3,951</u> | <u>1,813</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | 5,336 | 1,625 | 313 | 86 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 12,252 | - | - | - |
| Transfers out | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total other financing sources (uses) | <u>12,252</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | 17,588 | 1,625 | 313 | 86 |
| FUND BALANCES - BEGINNING | <u>143,622</u> | <u>3,221</u> | <u>2,598</u> | <u>1,210</u> |
| FUND BALANCES - ENDING | <u>\$ 161,210</u> | <u>\$ 4,846</u> | <u>\$ 2,911</u> | <u>\$ 1,296</u> |

Special revenue funds

| <i>Street Lighting #3</i> | <i>Weed Control</i> | <i>Water</i> | <i>Tobey Road</i> | <i>Totals</i> |
|--------------------------------------|--------------------------------|---------------------|------------------------------|----------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 5,336 |
| 637 | 6,400 | 2,297 | 1,791 | 20,863 |
| 637 | 6,400 | 2,297 | 1,791 | 26,199 |
| 590 | 5,480 | - | - | 13,784 |
| 47 | 920 | 2,297 | 1,791 | 12,415 |
| - | - | - | - | 12,252 |
| - | - | (5,000) | (7,252) | (12,252) |
| - | - | (5,000) | (7,252) | - |
| 47 | 920 | (2,703) | (5,461) | 12,415 |
| 397 | 6,220 | 5,643 | 5,461 | 168,372 |
| <u>\$ 444</u> | <u>\$ 7,140</u> | <u>\$ 2,940</u> | <u>\$ -</u> | <u>\$ 180,787</u> |

**Members of the Township Board
Township of Pavilion, Michigan**

In planning and performing our audit of the financial statements of the Township of Pavilion as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Pavilion's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

The Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

**Members of the Township Board
Township of Pavilion, Michigan
Page 2**

This communication is intended solely for the information and use of management, the Board of Trustees of the Township of Pavilion, and the State of Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.

May 2, 2007